

GENERAL COUNSEL'S REPORT

August 28, 2013

F. Southern Sports Surgery Center, Hendersonville (Sumner County), TN — CN1204-019A

Southern Sports Surgery Center seeks Agency approval for a change of ownership/control pursuant to T. C. A. § 68-11-1620, which requires Agency approval for an unimplemented project. In the case of a limited liability company or limited liability partnership, a change in the composition of members or partners to the extent that the management or membership control is different than that described in the certificate of need application. Drs. Gautsch and Grutter (currently 50% owners, each) wish to sell 38% to SurgCenter Development. Per the approved application, they may eventually sell other ownership interests to other physicians (no more than 13.04%).

This project was approved by a 7-3 vote by the Agency on September 26, 2012. Dr. Haik moved for approval, and Mr. Wright seconded. Jordan, Wright, Doolittle, Weaver, Haik, Byrd and Johnson voted aye; and Mills, Burns and Gaither voted nay.

CN1204-019A authorizes Southern Sports Surgery Center to relocate an approved but unimplemented CON for the establishment of an ASTC from 1163 Nashville Pike, Gallatin (Sumner Co.) to 127 Saundersville Road, Suite A, Hendersonville (Sumner Co.). It also expands the designated use of the ASTC to multi-specialty services. The approved project cost is \$3,355,533.00. The expiration date was extended to May 30, 2015 by operation of law, due to the length of the contested case appeal filed by Hendersonville Medical Center; which appeal was voluntarily dismissed.

The approved but unimplemented CON for the establishment of an ASTC for the establishment of a single-specialty ASTC dedicated to orthopedic surgery and musculoskeletal care at 1163 Nashville Pike, Gallatin (Sumner Co.), CN1104-013A, had been approved unanimously on August 24, 2011.

BUTLER | SNOW

July 30, 2013

VIA HAND DELIVERY

Jim Christoffersen, Esq.
General Counsel
Tennessee Health Services and Development Agency
161 Rosa L. Parks Boulevard, 3rd Floor
Nashville, TN 37203

RE: Southern Sports Medicine Surgery Center, CN1204-019

Dear Mr. Christoffersen:

This letter is submitted to request, to the extent required, approval by the Health Services and Development Agency ("Agency") of restructure of the ownership of the unimplemented project referenced above.

Background

The certificate of need ("CON") referenced above was approved on September 26, 2012, for establishment of an ambulatory surgical treatment center ("ASTC") in Hendersonville, TN. The applicant and holder of the CON is Southern Sports Surgical, LLC ("SSS"). The ownership of SSS is held 50% by Dr. Thomas Gautsch and 50% by Dr. Paul Grutter. The CON application indicated the intention of Drs. Gautsch and Grutter to permit future investment by other surgeons.

New Ownership Structure

Drs. Gautsch and Grutter have determined that development and efficient operation of the ASTC will be facilitated by the involvement of an experienced ASTC developer and operator. They propose to sell 38.04% of SSS to SurgCenter Development ("SCD"), a highly-experienced developer and operator of ASTCs throughout the country. The remaining ownership interests in the facility will be held by Drs. Gautsch and Grutter and other physicians, but no physician owner will hold more than 13.04% ownership interest.

Issue

It is not clear that the ownership changes described above will result in a change of control, as defined in T.C.A. Section 68-11-1620(b). While Drs. Gautsch and Grutter will

*The Pinnacle at Symphony Place
150 3rd Avenue South, Suite 1600
Nashville, TN 37201*

DAN H. ELROD
615.651.6702
dan.elrod@butlersnow.com

T 615.651.6700
F 615.651.6701
www.butlersnow.com

17143825v1

Jim Christoffersen, Esq.
July 30, 2013
Page 2

collectively divest themselves of more than 50% ownership, no other party will own as much as 50% and thus be in control of SSS. Because of the uncertainty as to whether a change of control will occur for purposes of § 68-11-1620, we request that the Agency approve ownership structure of SSS in which SCD will be the single largest owner at 38.04%.

Since SCD will be the single largest owner of SSS, we are attaching additional information regarding the company. Attachment 1 is a list of ASTCs in which SCD is currently involved and a map of these locations. Attachment 2 is the balance sheet and income statement for SCD as of December 31, 2012.

We would appreciate your including this item on the agenda for the Agency's meeting in August. Please let me know if you have any questions or need additional information.

Very truly yours,

BUTLER, SNOW, O'MARA, STEVENS &
CANNADA, PLLC



Dan H. Elrod

clw

cc: Dr. Thomas Gautsch
Dr. Paul Grutter

Attachment 1

SURGCENTER DEVELOPMENT

Development Projects

Arizona

The Surgery Center of Casa Grande
Casa Grande, AZ

SurgCenter Chandler
Gilbert, AZ

SurgCenter of Deer Valley
Phoenix, AZ

SurgCenter at Paradise Valley
Scottsdale, AZ

SurgCenter Tucson
Tucson, AZ

Arkansas

Tri State Advanced Surgery Center
Marion, AR

California

Oak Park Surgery Center
Arroyo Grande, CA

Southwest Surgical Center
Bakersfield, CA

Advanced Surgery Center of Beverly Hills
Beverly Hills, CA

Chico Surgery Center
Chico, CA

Delano Surgery Center
Delano, CA

Golden Empire Surgery Center
Delano, CA

Herndon Surgery Center
Fresno, CA

North Point Surgery Center
Fresno, CA

Prairie Avenue Surgery Center
Inglewood, CA

Palmdale Lancaster Surgery Center
Lancaster, CA

Porterville Surgical Center
Porterville, CA

Court Street Surgery Center
Redding, CA

Roseville Surgery Center
Roseville, CA

Tehachapi Surgery Center
Tehachapi, CA

Pacific Surgery Center of Ventura
Ventura, CA

Westlake Surgical Center
Westlake Village, CA

Colorado

SurgCenter of the Rockies
Castle Rock, CO

Kissing Camels Surgery Center
Colorado Springs, CO

Cherry Creek Surgery Center
Denver, CO

Hampden Surgery Center
Denver, CO

SurgCenter on Dry Creek
Denver, CO

Florida

Lake Mary Surgery Center
Lake Mary, FL

SurgCenter Pinellas
Largo, FL

Park Place Surgery Center
Maitland, FL

Longleaf Surgery Center
New Port Richey, FL

Marion Surgery Center
Ocala, FL

SurgCenter of Orange Park
Orange Park, FL

Advanced Surgery Center of Orlando
Orlando, FL

Millenia Surgery Center
Orlando, FL

SurgCenter of Palm Beach Gardens
Palm Beach Gardens, FL

Advanced Surgery Center of Sarasota
Sarasota, FL

SurgCenter NorthEast
St. Petersburg, FL

Idaho

Pleasant View Surgery Center
Post Falls, ID

Illinois

Physicians' Surgical Center
Belleville, IL

Effingham Surgery Center
Effingham, IL

Indiana

Indiana Specialty Surgery Center
Bloomington, IN

Carmel Specialty Surgery Center
Carmel, IN

Columbus Specialty Surgery Center
Columbus, IN

South Bend Specialty Surgery Center
Granger, IN

Midwest Specialty Surgery Center
Indianapolis, IN

Sycamore Springs Surgery Center
Indianapolis, IN

Advanced Regional Surgery Center
Jeffersonville, IN

Metro Specialty Surgery Center
Jeffersonville, IN

Northwest Regional Surgery Center
Merrillville, IN

Munster Specialty Surgery Center
Munster, IN

Riverview Surgery Center
Rockport, IN

Kansas

Surgery Center of Leawood
Leawood, KS

Surgery Center of Olathe
Olathe, KS

Physicians' Surgery Center
Prairie Village, KS

Precision Surgery Center
Wichita, KS

Louisiana

Advanced Surgical Care of Baton Rouge
Baton Rouge, LA

Pontchartrain Surgery Center
Covington, LA

West Bank Surgery Center
Harvey, LA

Advanced Surgery Center of Metairie
Metairie, LA

Advanced Surgery Center of Northern Louisiana
Monroe, LA

Red River Surgery Center
Shreveport, LA

Maryland

Riva Road Surgical Center
Annapolis, MD

SurgCenter of Bel Air
Bel Air, MD

Advanced Surgery Center of Bethesda
Bethesda, MD

Bethesda Chevy Chase Surgery Center
Bethesda, MD

SurgCenter of Southern Maryland
Clinton, MD

SurgCenter of Western Maryland
Cumberland, MD

Upper Bay Surgery Center
Elkton, MD

SurgCenter of Glen Burnie
Glen Burnie, MD

SurgCenter of Greenbelt
Greenbelt, MD

Hagerstown Surgery Center
Hagerstown, MD

Leonardtown Surgery Center
Leonardtown, MD

Maryland Specialty Surgery Center
Linthicum, MD

Maple Lawn Surgery Center
Maple Lawn, MD

SurgCenter at National Harbor
National Harbor, MD

Piccard Surgery Center
Rockville, MD

Deer Pointe Surgical Center
Salisbury, MD

SurgCenter of Silver Spring
Silver Spring, MD

Timonium Surgery Center
Timonium, MD

Westminster Surgery Center
Westminster, MD

SurgCenter of White Marsh
White Marsh, MD

Windsor Mill Surgery Center
Windsor Mill, MD

Minnesota

Greenway Surgery Center
Minneapolis, MN

Missouri

The Surgical Center of St. Louis
Bridgeton, MO

Chesterfield Surgery Center
Chesterfield, MO

Boone Surgery Center
Columbia, MO

Advanced Surgical Care
Creve Coeur, MO

Manchester Surgery Center
Des Peres, MO

Twin Cities Surgery Center
Festus, MO

Riverside Surgery Center
Florissant, MO

Frontenac Surgery & Spine Care Center
Frontenac, MO

Independence Surgery Center
Independence, MO

32nd Street Surgery Center
Joplin, MO

Briarcliff Surgery Center
Kansas City, MO

Liberty Surgical Center
Liberty, MO

Olive Surgery Center
St. Louis, MO

Mid Rivers Surgery Center
St. Peters, MO

Sunset Hills Surgery Center
Sunset Hills, MO

Mason Ridge Surgery Center
Town & Country, MO

Webster Surgery Center
Webster Groves, MO

West Plains Surgery Center
West Plains, MO

Nebraska

Advanced Surgery Center
Omaha, NE

Miracle Hills Surgery Center
Omaha, NE

Outpatient Surgical Specialties Center
Omaha, NE

Nevada

Mesquite Surgery Center
Mesquite, NV

Sierra Vista Surgery Center
Reno, NV

Ohio

SurgCenter Cleveland
Beachwood, OH

SurgCenter Hudson
Hudson, Ohio

White Fence Surgical Suites
New Albany, OH

Oregon

Columbia River Surgery Center
Portland, OR

Cornell Surgery Center
Portland, OR

Mt. Scott Surgery Center
Portland, OR

Pennsylvania

Street Road Surgery Center
Philadelphia, PA

South Hills Surgery Center
Pittsburgh, PA

Texas

SurgCenter of Southwest Houston
Houston, TX

Paris Surgery Center
Paris, TX

Stone Oak Surgery Center
San Antonio, TX

SurgCenter of Westover Hills
San Antonio, TX

Creekside Surgery Center
The Woodlands, TX

Utah

Cottonwood Surgery Center
Salt Lake City, UT



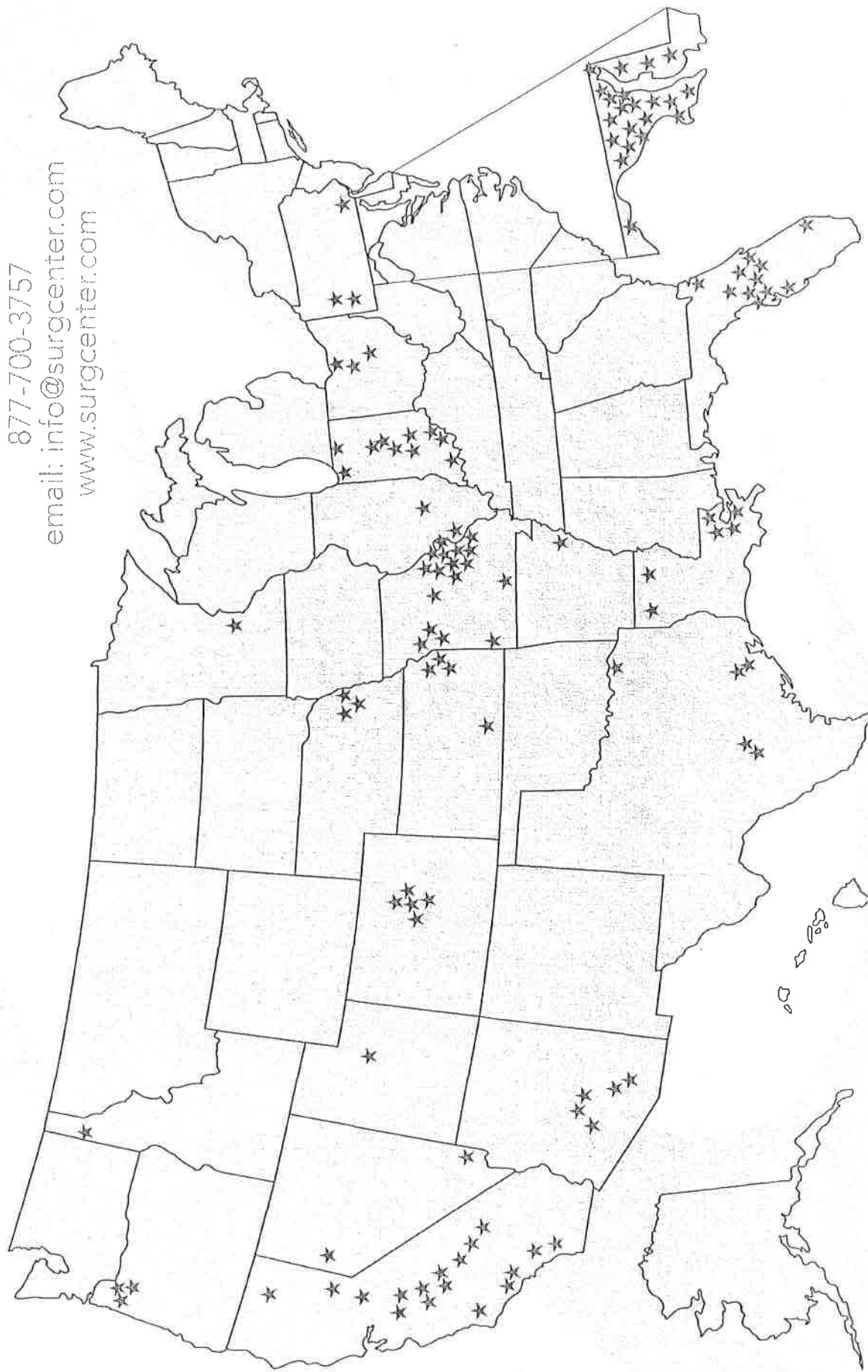
Development Projects

SurgCenter Development, Inc.

877-700-3757

email: info@surgcenter.com

www.surgcenter.com



Attachment 2

Surgical Center Development #3, LLC

6:26 AM

Balance Sheet

01/15/2013

As of December 31, 2012

Cash Basis

Dec 31, 12**ASSETS**

Current Assets

Checking/Savings

BofA Private Bank Checking

1,718,336.69

Total Checking/Savings

1,718,336.69

Other Current Assets

Loan Receivable - Munster Speci

2,078,544.14

Total Other Current Assets

2,078,544.14

Total Current Assets

3,796,880.83

Other Assets

Adjustment to Investments

1,231,919.53

Dr. Brooks Innovations

52,585.00

Note Receivable from Partners

2,781,860.00

SURGERY CENTERS

2,903,483.00

Total Other Assets

6,969,847.53**TOTAL ASSETS**10,766,728.36**LIABILITIES & EQUITY**

Liabilities

Current Liabilities

Other Current Liabilities

Due from SCD, Inc

200.00

Funds Owed Members for Munster

2,201,397.14

Midwest Specialty Building Fund

1,025,000.00

PASS THRU TAXES

50,764.88

Total Other Current Liabilities

3,277,362.02

Total Current Liabilities

3,277,362.02

Total Liabilities

3,277,362.02

Equity

Members' Capital

-103,058,469.41

Net Income

110,547,835.75

Total Equity

7,489,366.34**TOTAL LIABILITIES & EQUITY**10,766,728.36

Surgical Center Development #3, LLC

9:31 AM

Profit & Loss

01/25/2013

January through December 2012

Cash Basis

	Jan - Dec 12	Jan - Dec 12
Ordinary Income/Expense		
Income		
Interest Income	146,839.12	146,839.12
Investment Income	56,955,928.45	56,955,928.45
Other Inc (Other Income)	3,644.46	3,644.46
Reimbursed Expenses	61.41	61.41
Total Income	57,106,473.44	57,106,473.44
Expense		
Management Fee Expense	9,295,777.40	9,295,777.40
Misc Operating Expenses	291.11	291.11
Taxes	140.00	140.00
Total Expense	9,296,208.51	9,296,208.51
Net Ordinary Income	47,810,264.93	47,810,264.93
Other Income/Expense		
Other Income		
Capital Gain on Sales of Center	62,737,570.82	62,737,570.82
Total Other Income	62,737,570.82	62,737,570.82
Net Other Income	62,737,570.82	62,737,570.82
Net Income	110,547,835.75	110,547,835.75

Surgical Center Development #3, LLC
Profit & Loss
December 2012

6:27 AM
01/15/2013
Cash Basis

	Dec 12	Jan - Dec 12
Ordinary Income/Expense		
Income		
Interest Income	17,780.23	146,839.12
Investment Income		
32nd Street Income	65,042.35	398,017.03
Arapahoe Income	175,350.00	2,052,129.74
ASC Baton Rouge Income	46,052.63	409,692.99
Bel Air Income	53,846.15	1,106,257.18
Bethesda CC Income	235,011.99	2,876,993.00
Cherry Creek Income	137,928.32	173,733.21
Columbla River Income	66,037.74	115,566.04
Columbus Specialty Income	76,086.94	158,641.27
Cottonwood Income	52,710.84	512,064.27
Deer Pt Income	8,333.33	575,833.32
Effingham Income	739,132.00	3,079,244.00
Frontenac Income	100,377.68	1,430,415.84
Glen Burnie Income	165,835.41	2,621,927.46
Grogan's Mill Income	97,765.36	455,789.25
Hagerstown Income	103,494.62	1,580,213.10
Hampden Income	104,477.61	122,334.75
Hiawatha/Greewnay Income	17,587.89	43,372.53
ISSC Income	400,497.51	3,717,661.63
Kissing Camels Income	126,696.83	1,564,037.03
Leonardtwn Income	77,531.65	619,932.90
Maple Lawn Income	76,923.07	1,185,447.05
Metro Specialty Income	183,249.48	4,398,053.59
Mt. Scott Income	71,428.57	1,535,714.27
Piccard Income	127,604.17	2,187,060.45
Pinellas Income	91,623.05	2,998,208.32
Pontchartrain Income	80,357.14	1,914,661.65
Red River Income	400,340.10	2,644,929.28
Riva Road Income	162,790.68	1,974,820.90
Rivervlew Income	67,961.14	88,349.48
SC Greenbelt Income	35,813.95	695,101.21
Sierra Vista Income	0.00	360,670.73
Silver Spring Income	9,562.84	18,971.44
South Hills Income	14,670.66	94,545.69
Southern Maryland Income	112,903.23	843,136.27
Stone Oak Income	98,000.00	814,999.99
SurgCenter Cleveland Income	36,363.64	234,949.51
Sycamore Springs Income	48,964.97	668,234.40

	Dec 12	Jan - Dec 12
Timonium Income	39,682.60	1,371,728.47
Webster Income	34,633.67	427,785.48
West Bank Income	199,059.93	2,369,059.93
West Portland Income	133,835.00	2,143,072.22
Western MD Income	30,172.41	555,322.64
Westminster Income	164,319.25	2,892,837.14
White Marsh Income	27,631.58	924,411.80
Total Investment Income	5,097,687.98	56,955,928.45
Other Inc (Other Income)	0.00	3,844.46
Reimbursed Expenses	0.00	61.41
Total Income	5,115,468.21	57,106,473.44
Expense		
Management Fee Expense	3,656,020.14	9,295,777.40
Misc Operating Expenses		
Bank Fee	100.01	141.11
Tax, Business (Taxes & Licenses)	0.00	150.00
Total Misc Operating Expenses	100.01	291.11
Taxes		
State Taxes	0.00	140.00
Total Taxes	0.00	140.00
Total Expense	3,656,120.15	9,296,208.51
Net Ordinary Income	1,459,348.06	47,810,264.93
Other Income/Expense		
Other Income		
Capital Gain on Sales of Center	62,401,402.00	62,737,570.82
Total Other Income	62,401,402.00	62,737,570.82
Net Other Income	62,401,402.00	62,737,570.82
Net Income	63,860,750.06	110,547,835.75

STATE OF TENNESSEE
Health Services and Development Agency



Certificate of Need No. CN1204-019A is hereby granted under the provisions of T.C.A. § 68-11-1601, *et seq.*, and rules and regulations issued thereunder by this Agency.

To: Southern Sports Surgical, LLC
570 Hartsville Pike
Gallatin, TN 37066

For: Southern Sports Surgery Center

This Certificate is issued for: Relocation of an approved but unimplemented certificate of need for the establishment of an ambulatory surgical treatment center (ASTC) and expansion of the designated use of its previously approved single-specialty ASTC (CN1104-013A) to multi-specialty services. The proposed project will relocate from 1163 Nashville Pike, Gallatin (Sumner County), TN 37066. The center will contain approximately 6,200 square feet of space including two (2) operating rooms, one (1) procedure room, pre/post holding area and support space.

CONDITION: Limited to a multi-specialty ASTC with two (2) operating rooms, and one (1) procedure room. Certificate of Need CN1104-013A is to be surrendered.

On the premises located at: Lot 38 - Indian Lake Village
127 Saundersville Road, Suite A
Hendersonville (Sumner County), TN 37075

For an estimated project cost of: \$3,355,533.00

The Expiration Date for this Certificate of Need is

November 1, 2014

or upon completion of the action for which the Certificate of Need was granted, whichever occurs first. After the expiration date, this Certificate of Need is null and void.

Date Approved: September 26, 2012


Chairman

Date Issued: October 24, 2012


Executive Director

STATE OF TENNESSEE
Health Services and Development Agency



Certificate of Need No. **CN1104-013A** is hereby granted under the provisions of T.C.A. § 68-11-1601, *et seq.*, and rules and regulations issued thereunder by this Agency.

To: Southern Sports Surgical, LLC
570 Hartsville Pike
Gallatin, TN 37066

For: Southern Sports Medicine Surgery Center (SSMSC)

This Certificate is issued for: The establishment of a single specialty orthopedic ambulatory surgical treatment center (ASTC). The center will contain approximately 6,200 square feet of space and will include two (2) operating rooms, one (1) procedure room, a pre/post holding area and support space.

On the premises located at: 1163 Nashville Pike
Gallatin (Sumner County), TN 37066


For an estimated project cost of: \$3,296,400.00

The Expiration Date for this Certificate of Need is

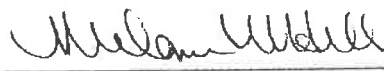
October 1, 2013

or upon completion of the action for which the Certificate of Need was granted, whichever occurs first. After the expiration date, this Certificate of Need is null and void.

Date Approved: August 24, 2011


Chairman

Date Issued: September 28, 2011


Executive Director